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·1981·

PENSION FACTS

American Council of Life Insurance

Information, Reference and Statistical Services
1850 K Street, N.W., Washington, D.C. 20006

AUTHORIZATION TO REPRODUCE GRANTED
Library of Congress Catalogue Card Number 75-39762

FOREWORD

Pension Facts is an annual publication of the American Council of Life Insurance. It is an information resource for writers and editors as well as for those in business, government and other areas who are involved with pension and other employee benefits.

This edition includes the latest available data. We hope you will find it helpful.

Robert N. Chiappetta, A.S.A.
Director, Information, Reference and
Statistical Services
American Council of Life Insurance

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MAJOR PENSION AND RETIREMENT PROGRAMS

Half of all full-time workers in commerce and industry in the United States and three-fourths of all government civilian personnel are now enrolled in retirement plans other than Social Security. Included are those enrolled in profit-sharing plans that provide retirement income. The number of participants is estimated to be about 50 million.

The term "coverage" with regard to pension plans differs from its use in life and health insurance. In life and health coverage, there is no difference between persons eligible for benefits and those who receive benefits under the specified conditions. The nature of a retirement contract, however, is such that it is difficult to determine the number of potential beneficiaries in relation to "covered" workers.

Unlike life insurance, which provides instant coverage, a private pension plan provides future benefits that generally are contingent on the employee's age and length of service. Also, dependents and survivors, who have only potential income from the plan, are not counted as covered unless they are actually receiving benefits.

However, as in the case of life and health insurance, an individual may be covered by several plans, usually by fulfilling the vesting qualifications under several plans and/or by having primary coverage and being the spouse of a person who is covered.

Private Pension Plans

Private pension plans are those established by private agencies including commercial, industrial, labor and service organizations, nonprofit organizations, nonprofit religious, educational and charitable institutions, and those set up by individuals who have no employment-related coverage.

Estimates from a Labor Department study of Internal Revenue Service data on private employee pension plans indicate that there were 132,399 Defined Benefit plans with 34,199,000 participants and 319,362 Defined Contribution plans with 15,479,000 participants in the U.S. in 1977.

Pension plans may be self-administered, placed with banks or trust companies, or insured with life insurance companies.

TABLE 1
NUMBER OF PERSONS COVERED BY MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES

(000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees**	State and Local Employees	OASI†
1940	695	3,565	1,349	745	1,552	22,900
1945	1,470	5,240	1,846	2,928	2,008	41,070
1950	2,755	7,500	1,881	1,872	2,894	61,506
1955	4,105	12,290	1,876	2,333	3,927	74,887
1960	5,475	17,540	1,654	2,703	5,160	91,496
1961	5,635	18,440	1,662	2,855	5,309	95,643
1962	5,770	19,370	1,643	2,943	5,654	97,440
1963	6,060	19,990	1,664	2,985	5,940	99,320
1964	6,710	20,350	1,650	3,069	6,330	101,167
1965	7,040	21,060	1,661	3,114	6,780	103,827
1966	7,835	21,710	1,666	3,322	7,210	107,438
1967	8,700	22,330	1,641	3,499	7,594	110,746
1968	9,155	22,910	1,625	3,565	8,012	113,804
1969	9,920	24,410	1,620	3,627	8,303	116,904
1970	10,580	25,520	1,633	3,624	8,591	120,014
1971	10,880	26,580	1,578	3,596	9,079	122,735
1972	11,545	27,400	1,575	3,739	9,563	125,549
1973	12,485	28,700	1,582	4,040	9,850	129,045
1974	13,335	29,240	1,588	4,057	10,635	132,583
1975	15,190	30,300*	1,564	4,171	11,230	135,744
1976	16,965	NA	1,572	4,210	12,290	138,633
1977	19,205	NA	1,567	4,292	13,124	141,596
1978	21,615	NA	1,580	4,380	13,540*	144,260
1979	23,460	NA	1,567	4,398	13,700*	147,178
1980	26,080	NA	1,532	4,459	13,900*	153,634

NOTES: It is not possible to obtain a total for number of persons covered by pension plans by adding together the figures shown by year. Each series has been derived separately and there are differences in amount of duplication within each series and among the various series and also differences in definition of "coverage" among the series.

Private plans with life insurance companies include persons covered by Keogh plans, tax-sheltered annuities and, after 1974, IRA plans.

Data for "Other Private Plans," compiled by the Social Security Administration, exclude plans for the self-employed, those having vested benefits but not presently employed at the firm where benefits were accrued, and also exclude an estimated number who have vested benefits from employment other than from their current employment.

These data represent various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year within each series are not affected. The number of persons covered include survivors or dependents of

deceased workers and beneficiaries as wel[illegible]red workers. Retirement arrangements for members of the armed forces, and provisions for veterans' pensions, are not included.

NA=Not Available.

*Estimated.

**Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Authority Retirement System, the Foreign Service Retirement System, and the Retirement Plan for Employees of the Federal Reserve System, which includes the Bank Plan and the Board of Governors' plan.

†Includes living workers insured for retirement and/or survivors benefits, including the self-employed, plus dependents of retired workers and survivors of deceased workers who are receiving periodic benefits.

SOURCE: Compiled by the American Council of Life Insurance.

At the end of 1980, insured plans covered 26.1 million persons and provided retirement income to 2.6 million individuals.

Government-administered Plans

Government-administered plans, including those for Federal civilian employees, state and local government employees and railroad workers, covered an estimated 19.9 million persons at year-end 1980. This figure includes some duplication of coverage under more than one plan; some individuals covered by government plans are also covered by one or more private plans and some individuals in the private sector also may have multiple coverage under private plans.

The most comprehensive government retirement program is the Federal Old-Age, Survivors, and Disability Insurance (OASDI) system, also known as Social Security, a national old-age social insurance program created in 1935. Some 162 million persons had Social Security earnings credits at the end of 1980. Over 137 million of these workers had been in the Social Security program long enough to be fully insured (i.e., if they were to die, the full range of survivor benefits would be available, or if they were age 62, they would qualify for retirement benefits).

(Serious questions have been raised in recent years about the fiscal integrity of the Social Security System, brought about by several fundamental demographic changes and economic conditions. The life insurance business has been in the forefront in recommending changes to alleviate the problem, including continued financing of the system through payroll taxes, rather than general revenues; reform of the method of indexing benefits for inflation; later retirement age after sufficient advance notice; coverage of new government employees under Social Security; and incentives to encourage the growth of voluntary pensions and other private retirement savings.)

Actuarially-funded retirement systems for civilian employees of the United States government cover 4.5 million persons.

The Railroad Retirement System, the only retirement system administered by the Federal government for a single private industry, covered 1.5 million persons at year-end 1980, including more than 1 million beneficiaries.

State and local government retirement systems covered an estimated 13.9 million persons at the end of 1980.

TABLE 2
ASSETS AND RESERVES OF MAJOR PENSION AND RETIREMENT PROGRAMS IN THE UNITED STATES

(000,000 Omitted)

Year	Private Plans		Government-Administered Plans			
	With Life Insurance Companies	Other Private Plans	Railroad Retirement	Federal Civilian Employees*	State and Local Employees	Old-Age, Survivors and Disability Insurance**
1950	$ 5,600	$ 6,452	$2,553	$ 4,343	$ 5,154	$13,721
1960	18,850	33,138	3,740	10,790	19,600	22,613
1965	27,325	59,185	3,946	16,516	33,100	19,841
1966	29,425	66,170	4,074	17,619	36,900	22,308
1967	32,000	74,240	4,236	18,799	41,500	26,250
1968	34,975	83,072	4,245	20,224	46,300	28,729
1969	37,900	90,579	4,347	21,600	51,800	34,182
1970	41,175	97,011	4,398	23,922	58,200	38,068
1971	46,400	106,419	4,300	26,532	64,800	40,434
1972	52,300	117,530	4,100	29,978	73,400	42,775
1973	56,085	126,531	3,800	32,283	82,700	44,414
1974	60,810	133,731	3,600	35,366	92,400	45,886
1975	72,210	145,166	3,100	39,248	103,700	44,342
1976	88,990	160,414	3,065	44,089	117,300	41,133
1977	101,520	181,509	2,584	50,832	130,800	35,861
1978	119,110	202,237	2,787	57,677	142,573	31,746
1979	139,180	223,465	2,611	65,914	161,649	30,291
1980	165,845	256,898	2,086	75,802	185,226	26,453

NOTE: Some data are revised. These data are as of various dates during the year, since the fiscal years of the plans are not necessarily the same. Trends from year to year are not affected.

*Includes members of the U.S. Civil Service Retirement System, the Tennessee Valley Retirement System, the Foreign Service Retirement System, and the Retirement System of the Federal Reserve Banks, which includes the Bank Plan and the Board of Governors' Plans.

**Beginning in 1957, assets of Disability Insurance Trust Funds are included. Health and Supplementary Medical Insurance is not included.

SOURCES: Railroad Retirement Board; Social Security Administration, U.S. Department of Health and Human Services; Securities and Exchange Commission; other administrative agencies; and the American Council of Life Insurance.

INSURED PENSION PLANS

There were 26.1 million Americans covered by private pension plans administered by U.S. legal reserve life insurance companies at year-end 1980, an increase of 2.6 million over 1979. This figure includes retired persons receiving pension benefits, those who left employment before retirement with vested pension credits, and active workers. There is some duplication due to persons being covered under more than one plan.

Pension reserves backing these plans reached $165.8 billion at year-end 1980, an increase of 19% over year-end 1979 and four times the amount of pension reserves held 10 years ago.

Pension plans administered by life insurance companies are not necessarily different in plan design from other pension and retirement plans. With the growth of employee benefits, life insurance companies have modified the design of contracts and policies used to fund pension plans so that employers can choose to participate in the investment and actuarial experience of the contract.

Group Pension Plans

Most persons covered by pension plans administered by life insurance companies are under group pension contracts. There are a variety of such plans.

Deferred group annuities. Under these plans, each year the employer purchases a single-premium deferred annuity for each participant in an amount determined under the plan's benefit formula, which usually relates to the participant's earnings during the year. The group deferred annuity has been declining in popularity in recent years because it limits an employer's opportunities to participate in actuarial and investment gains.

Deposit administration contracts. A single fund is set up for all plan participants. Money is withdrawn to buy an annuity when a participant retires.

Immediate participation guarantee plans. Available for large employee groups, these are a variation of contracts, deposit administration with participation in actuarial, investment or administrative gains or losses as they occur, rather than being spread over the life of the contract.

The preceding three types of plans are reported together as "Group Annuities" in the tables accompanying this text.

Terminal funded group plans. These are funded by the employer on the date of the employee's retirement with a single lump sum sufficient to provide the monthly pension benefit due under the plan. Normally a reserve for future retirees' benefits is not set up with the life insurance company prior to each participant's retirement.

Individual policy pension trusts, group permanent plans and profit-sharing plans are often used by smaller firms. Over 2.1 million persons were covered by such plans at year-end 1980. Individual policy pension trusts usually involve the purchase of an individual whole life or endowment policy for each person to provide retirement benefits. Group permanent plans use whole life or endowment policies on a group basis keyed to retirement. Profit-sharing plans included here generally provide an individual fund for each participant annually.

Individual Plans

There are three general types of tax-deferred retirement plans available to individuals under specific circumstances.

H.R. 10 (Keogh) plans. Available for more than 17 years, these allow self-employed persons and proprietors of small businesses to set up individual plans for themselves and their employees.

At year-end 1980, H.R. 10 plans with life insurance companies covered 480,000 persons, including 15,000 individuals receiving benefits. Assets of these plans were over $2.5 billion.

Individual Retirement Accounts (IRAs). These are designed for self-employed individuals, persons who do not qualify for a retirement plan at their place of employment, or persons employed for an organization that does not offer a retirement plan. The Appendix beginning on page 57 summarizes the provisions of ERISA and later amendments governing these accounts. At year-end 1980, there were 1,095,000 individuals who had established IRAs with life insurance companies. Most plans were not yet paying benefits, and reserves totaled $3.0 billion.

Table 4 illustrates the dollar amounts held, by institution, for individual retirement accounts (IRAs) and H.R. 10 plans at year-end 1980.

The Internal Revenue Service's analysis of 1978 individual income tax returns shows that 2,388,520 returns claimed contributions to Individual Retirement Accounts, and the total amount contributed was nearly $3.0 billion. Almost $2.0 billion in H.R. 10 contributions were reported on 627,900 returns.

TABLE 4
OUTSTANDING AMOUNTS IN IRA'S AND KEOGH PLANS WITH SELECTED FINANCIAL INSTITUTIONS, YEAR-END

(000,000 Omitted)

	IRA Accounts		Keogh Plans		Total		Percent of Total	
Institution	1979	1980	1979	1980	1979	1980	1979	1980
Life Insurance Companies	$2,465	$3,020	$2,320	$2,510	$ 4,785	$ 5,530	19.3%	17.9%
Mutual Funds	453	795	2,791	3,770	3,244	4,565	13.1	14.8
U.S. Treasury Retirement	43	45	167	177	210	222	0.8	0.7
Commercial Banks*	NA	NA	NA	NA	4,900**	5,700**	19.8	18.4
Mutual Savings Banks	2,031	2,689	1,025	1,229	3,056	3,918	12.3	12.7
Savings & Loan Associations	6,100**	8,100**	2,500**	2,900**	8,600**	11,000**	34.7	35.5
Total	NA	NA	NA	NA	$24,795	$30,935	100.0%	100.0%

NA = Not Available.

*Includes only IRA and Keogh Plan time deposits with original maturities of three years or more.

**Estimated.

SOURCES: American Council of Life Insurance, Investment Company Institute, U.S. Treasury Department, Board of Governors of the Federal Reserve System, National Association of Mutual Savings Banks and Federal Home Loan Bank Board.

The Revenue Act of 1978 liberalized and simplified tax rules for IRAs, including an increase in the IRA contribution limit for employee IRAs (see Appendix). The deadline for establishing and making contributions to IRA plans was extended, penalties for overcontributing to plans were eased, as were rollover provisions.

The Economic Recovery Act of 1981 raised contribution limits on Individual Retirement Accounts and H.R. 10 plans and extended I.R.A. eligibility to persons covered by employer pension plans.

Tax-sheltered annuities. These plans are permitted for use primarily in the academic community and nonprofit foundations. Life insurance companies administered $10.3 billion in the assets of tax-sheltered annuities in 1980. These plans covered 1.8 million persons, including 50,000 annuitants in 1980.

Funding Options

Pension plans can be funded in many ways. The most common are described below.

Annuities. Annuities may be classified in a variety of ways. There are fixed premium, flexible premium and single premium annuities—all describing the method used to purchase the annuity.

The annuity may be characterized by the manner in which the premiums draw interest and pay benefits—fixed rate of interest and fixed benefit payments, or variable rate of interest and benefit payments. In the latter, the assets are primarily placed in common stocks and the interest rate is usually indexed to the performance of the fund. *Variable annuity* investments are largely kept in separate accounts (see page 16). In 1980, there were 53,730 group pension funds providing variable annuity payouts according to an equity fund index (Table 5). Other indices were used in 10 group variable plans with indices relating to such bases as changes in the cost of living.

Yet another way of describing annuities is by the conditions specified for paying benefits: the number of lives covered (individual, joint and survivor, and joint life); disposition of the proceeds (life annuity, life annuity with a period certain, temporary, etc.); and the date the benefits begin (immediate, deferred).

"The Language of Pensions" section, which begins on page 44 includes many of these definitions.

TABLE 5
VARIABLE ANNUITY PLANS IN THE UNITED STATES 1980

(Dollar Amounts in Thousands)

	Group Plans			Individual	Total
	Equity Fund Index	Other Indices	Total Group	Plans (Equity Fund Index)	Group and Individual
IN FORCE YEAR-END 1980					
No. of Plans	53,730	10	53,740	—	—
No. of Persons	1,484,610	74,650	1,559,260	755,570	2,314,830
Reserves					
Variable	$3,245,720	$450,310	$3,696,030	$2,724,400	$ 6,420,430
Other	5,965,680	296,150	6,261,830	2,095,300	8,357,130
Total	$9,211,400	$746,460	$9,957,860	$4,819,700	$14,777,560
CONSIDERATIONS IN 1980					
Variable	$ 225,880	$ 58,240	$ 284,120	$ 678,480	$ 962,600
Other	1,202,810	13,950	1,216,760	310,360	1,527,120
Total	$1,428,690	$ 72,190	$1,500,880	$ 988,840	$ 2,489,720
VARIABLE ANNUITIES IN COURSE OF PAYMENT — 1980					
No. of Persons Receiving Payments Year-End 1980	18,310	10,190	28,500	11,240	39,740
Annualized Income					
Variable	$ 19,550	$ 25,670	$ 45,220	$ 6,020	$ 51,240
Fixed	164,350	25,460	189,810	10,690	200,500
Total	$ 183,900	$ 51,130	$ 235,030	$ 16,710	$ 251,740

NOTE: The table includes variable and fixed data on plans which provide variable annuity benefits either in whole or in part. Numbers of plans and active lives under plans which provide an option for a variable annuity payout at retirement are not included. For 1980 there were 650 such groups covering 94,460 persons, and 3,980 individual plans.

SOURCE: American Council of Life Insurance.

Guaranteed Investment Contracts (GICs). These are usually sold as "group annuities" by life insurance companies. They are fixed income funding instruments backed by the general accounts of the company. Maturities generally range from five to 20 years. Interest is compounded at a fixed rate annually. GICs are popular with larger employers and multi-employer pension plans interested in minimizing investment risk.

Permanent life insurance contracts. These may be purchased to provide plan benefits in certain types of pension plans. Whole life, endowment and retirement income policies may be used for this purpose.

Separate Accounts

At one time, banks and other financial institutions had a competitive advantage over life insurance companies for pension business, in part because of restrictions in state laws on the amount of assets life companies could place in certain investments. In the early 1960s, however, life insurance companies were permitted under state laws to invest pension funds in "separate accounts," which are not subject to the same investment limitations as the companies'

TABLE 6
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS

	December 31, 1979				December 31, 1980			
Separate Accounts Used Solely for:	Number of Companies	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)	Number of Companies	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)
Group Pension Contracts	73	319	17,100	$21,980	78	352	19,793	$30,895
Individual Variable Annuity Contracts	33	85	204,258	1,050	36	173	413,935	1,954
Individual Variable Life Insurance	3	3	18,425	15	5	7	52,656	35
Mixed Purposes	28	9,616	624,824	2,197	32	9,704	594,064	2,276
Total	99*	10,023	844,607	$25,242	108*	10,236	1,080,364*	$35,160

*Details do not add due to companies having more than one type of separate account, and due to contracts participating in more than one account.

NOTE: Data represent 99% of total life insurance company separate account assets as of December 31, 1980.

SOURCE: American Council of Life Insurance.

general accounts. Life insurance companies can invest up to 100% of separate account assets in common stocks, while the general accounts are limited to holding only a small fraction of assets in common stock. By year-end 1980, 140 U.S. life insurance companies had established separate accounts.

In 1980, $33.4 billion of pension assets were held in separate accounts, about 20% of total pension assets. Separate account assets at year-end 1980 were almost entirely pension assets.

A survey of separate account assets at year-end 1980 (Tables 6 and 7), representing 108 companies and 99% of total separate account assets, showed that 88% of the assets in these separate accounts were used solely for group pension contracts. Further, 47% of these group pension contract assets were invested solely or primarily in common stocks.

TABLE 7
LIFE INSURANCE COMPANY SEPARATE ACCOUNTS USED SOLELY FOR GROUP PENSION CONTRACTS

	December 31, 1979			December 31, 1980		
Invested Primarily In:	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)	Number of Accounts	Number of Contracts Participating in Accounts	Assets Held (Millions)
Common stocks	164	12,457	$11,187	155	13,282	$14,440
Publicly traded bonds	35	658	1,202	47	817	1,505
Private placement debt	15	462	1,281	12	528	1,367
Real property	6	261	1,701	6	425	3,167
Real estate mortgages	3	69	65	4	79	70
Short term investments	18	766	1,215	33	1,198	1,410
Mixed portfolio, common stocks and publicly traded bonds	34	339	1,047	36	415	1,441
Publicly traded bonds and private placement debt	3	8	7	1	2	4
Real property and real estate mortgages	3	234	1,123	3	315	1,717
Other	38	2,222	3,152	55	3,149	5,774
TOTAL	319	17,476*	$21,980	352	20,210*	$30,895

*Totals differ from those shown in Table 6 due to contracts participating in more than one account.

SOURCE: American Council of Life Insurance.

PRIVATE NON-LIFE INSURANCE COMPANY PENSION PLANS

Private pension plans other than those administered by life insurance companies represent the oldest type of industrial retirement planning in the United States. Assets amounted to $256.9 billion at the end of 1980.

Private retirement plans in this category are generally trusteed pension plans under which contributions are paid into a trust, usually administered by a bank or trust company, which holds and invests the contributions and pays benefits in accordance with the terms of the trust and the plan provisions. In some cases, the investment procedure is handled directly by the employer, particularly in very large firms with investment staffs, or jointly with outside advisors.

Some trusteed plans are deferred profit-sharing plans which provide for retirement income. Some pay-as-you-go plans are also included in this section, and usually do not have an advance funding arrangement but pay benefits from current employer revenues.

Non-life insurance company pension and retirement plans are usually divided into "pattern" plans and "conventional" plans for purposes of analyzing funding, plan provisions and benefit levels. Until 1950, practically all plans were the conventional type, but in 1949, when the principle was established that pensions are subject to collective bargaining, "pattern" plans took hold, particularly in large industries, and were a major reason for the vast growth of private pension plans.

The term "pattern" refers to a form of plan which has been adopted by certain international unions and, with minor variations, by individual companies or groups of companies. Historically, the pension provided was a flat dollar benefit which varied only by years of service. The steel industry has long been an exception, along with a few smaller industries, in that employee compensation was also taken into account. Recently other industries, notably the automotive and aerospace industries, have modified the pattern to take into account the compensation level. Pattern plans have other common characteristics: they are usually non-contributory; there is usually no Social Security offset; and usually there is no waiting period for eligibility. Conventional plans provide benefits which vary both with years of service and rate of compensation. Other plan provisions are also less standardized in areas such as eligibility and employee contributions.

TABLE 3
PENSION PLANS IN THE UNITED STATES WITH LIFE INSURANCE COMPANIES IN FORCE AT YEAR-END

Year and Types of Plan	Number of Plans	Number of Persons (In thousands)			Payments into Plans in Year[1] (In millions)	Benefits Paid in Year (In millions)	Reserves (In millions)	
		Not Yet Receiving Pensions	Receiving Pensions	Total			Total (Includes Separate Account Reserves)	Separate Account
1950								
Deferred Group Annuity	2,460	NA	NA	1,950	$ 640	NA	$ 4,125	—
Deposit Administration Group Annuity[2]	160	NA	NA	275	50	NA	225	—
Pension Trust	7,530	NA	NA	340	170	NA	700	—
Other[3]	1,120	NA	NA	190	75	NA	550	—
Total	11,270	2,605	150	2,755	$ 935	$ 80	$ 5,600	—
1955								
Deferred Group Annuity	3,740	NA	NA	2,345	$ 845	NA	$ 7,925	—
Deposit Administration Group Annuity[2]	990	NA	NA	950	220	NA	1,075	—
Pension Trust	12,530	NA	NA	485	250	NA	1,400	—
Other[3]	1,720	NA	NA	325	110	NA	925	—
Total	18,980	3,815	290	4,105	$1,425	$ 180	$11,325	—
1960								
Deferred Group Annuity	5,590	NA	NA	2,525	$ 695	NA	$11,675	—
Deposit Administration Group Annuity[2]	3,120	NA	NA	1,835	415	NA	3,375	—
Pension Trust	20,460	NA	NA	675	315	NA	2,175	—
Other[3]	3,170	NA	NA	440	190	NA	1,625	—
Total	32,340	4,935	540	5,475	$1,615	$ 390	$18,850	—
1965								
Deferred Group Annuity	7,980	NA	NA	2,275	$ 850	NA	$14,225	NA
Deposit Administration Group Annuity[2]	7,700	NA	NA	3,410	905	NA	7,950	NA
Pension Trust	43,580	NA	NA	795	365	NA	2,550	NA
Other[3]	8,500	NA	NA	560	275	NA	2,625	NA
Total	67,760	6,250	790	7,040	$2,395	$ 720	$27,350	$ 260
1970								
Deferred Group Annuity	10,280	1,437	518	1,955	$ 725	$ 444	$12,800	NA
Deposit Administration Group Annuity[2]	15,020	5,577	548	6,125	1,865	715	20,625	NA
Pension Trust	92,590	1,065	95	1,160	575	101	3,350	NA
Other[3]	171,620	1,275	65	1,340	730	70	4,400	NA
Total	289,510	9,354	1,226	10,580	$3,895	$1,330	$41,175	$4,900

1975								
Group Annuities[4]	54,090	9,105	1,440	10,545	$ 7,260	$2,160	$55,180	$10,900
Terminal Funded Group Plans	3,250	60	85	145	340	110	1,950	60
Individual Policy Pension Trusts[5]	176,410	1,860	100	1,960	1,075	140	5,550	440
H.R. 10 (Keogh) Plans	—	440	10	450	345	10	1,300	150
Tax-Sheltered Annuities	—	915	20	935	750	35	3,150	790
Individual Retirement Accounts	—	435	*	435	315	**	330	40
Other[3]	—	660	60	720	650	65	4,750	140
Total	—	13,475	1,715	15,190	$10,735	$2,520	$72,210	$12,520
1979								
Group Annuities[4]	83,610	15,060	2,025	17,085	$12,165	$3,715	$106,015	$21,410
Terminal Funded Group Plans	4,800	80	140	220	390	265	3,825	50
Individual Policy Pension Trusts[5]	200,950	1,870	135	2,005	1,200	165	7,090	650
H.R. 10 (Keogh) Plans	—	455	15	470	355	30	2,320	270
Tax-Sheltered Annuities	—	1,600	40	1,640	1,605	60	8,355	1,390
Individual Retirement Accounts	—	1,045	5	1,050	630	15	2,465	90
Other[3]	—	900	90	990	1,555	100	9,110	250
Total	—	21,010	2,450	23,460	$17,900	$4,350	$139,180	$24,110
1980								
Group Annuities[4]	91,370	17,115	2,110	19,225	$14,820	$4,240	$127,215	$30,230
Terminal Funded Group Plans	5,680	90	145	235	370	295	4,285	90
Individual Policy Pension Trusts[5]	204,300	2,015	135	2,150	1,480	175	7,585	650
H.R. 10 (Keogh) Plans	—	465	15	480	355	30	2,510	330
Tax-Sheltered Annuities	—	1,760	50	1,810	2,010	80	10,280	1,600
Individual Retirement Accounts	—	1,095	5	1,100	700	15	3,020	130
Other[3]	—	960	120	1,080	1,815	125	10,950	380
Total	—	23,500	2,580	26,080	$21,550	$4,960	$165,845	$33,410

NOTE: Some data are revised.
NA = Not Available.
*Fewer than 2,500.
[1]"Payments into Plans in Year" are incurred premiums after deducting withdrawal credits.
[2]Includes Immediate Participation Guarantee.
[3]Includes data on H.R. 10 plans and tax-sheltered annuities through 1972 and individual annuity plans, certain profit-sharing plans and miscellaneous plans not readily available.
[4]Includes Immediate Participation Guarantee and Deposit Administration plans.
[5]Includes Group Permanent plans and profit-sharing trusts.
SOURCE: American Council of Life Insurance.

TABLE 8
PRIVATE PENSION PLANS IN THE UNITED STATES NOT FUNDED WITH LIFE INSURANCE COMPANIES

(in Millions)

Calendar Year	Number of Persons			Contributions in Year*			Benefits Paid in Year**	Assets
	Not Yet Receiving Pensions	Receiving Pensions	Total	Employer	Employee	Total		
1930	NA	NA	2.70	NA	NA	—	NA	$ 700
1935	NA	NA	2.53	NA	NA	—	NA	950
1940	3.44	.13	3.57	NA	NA	—	NA	1,400
1945	4.99	.25	5.24	NA	NA	—	NA	2,850
1950	7.20	.30	7.50	$ 1,030	$ 130	$ 1,160	$ 290	6,452
1955	11.60	.69	12.29	2,180	280	2,460	670	16,141
1960	16.30	1.24	17.54	3,520	480	4,000	1,330	33,138
1965	19.10	1.96	21.06	5,600	670	6,270	2,800	59,185
1970	22.00	3.52	25.52	9,720	1,070	10,790	6,030	97,011
1971	22.70	3.88	26.58	11,320	1,120	12,440	7,080	106,419
1972	23.20	4.20	27.40	12,740	1,200	13,940	8,300	117,530
1973	24.10	4.60	28.70	14,370	1,270	15,640	9,310	126,531
1974	24.40	4.84	29.24	16,970	1,460	18,430	10,740	133,731
1975	24.90	5.40	30.30	19,830	1,600	21,430	12,330	145,166
1976	NA	NA	—	NA	NA	—	NA	160,414
1977	NA	NA	—	NA	NA	—	NA	181,509
1978	NA	NA	—	NA	NA	—	NA	202,237
1979	NA	NA	—	NA	NA	—	NA	223,465
1980	NA	NA	—	NA	NA	—	NA	256,898

NOTE: Data exclude self-employed persons and others covered by HR 10, IRA and tax-sheltered annuity plans. The number of persons "Not Yet Receiving Pensions" includes some duplication. A survey by the Social Security Administration indicates there were 27,500,000 unduplicated number of persons covered by all private plans, insured and uninsured, and not yet receiving pensions at year-end 1972.

NA = Not Available. Due to changes in reporting requirements, most data for 1976 to 1980 are not yet available. They will be reported in subsequent editions of *Pension Facts* when they become available from the U.S. Department of Labor.

*Contributions are on a gross basis and do not include refunds. For pay-as-you-go plans, contributions are assumed to equal benefits.

**Benefit payments include refunds to employees and their survivors, and lump sums under deferred profit-sharing plans.

SOURCES: Social Security Administration, U.S. Department of Health and Human Services, and Securities and Exchange Commission.

TABLE 9
DISTRIBUTION OF ASSETS OF NONINSURED PENSION FUNDS
BOOK VALUE END OF YEAR

(000,000 Omitted)

Calendar Year	U.S. Government Securities	Corporate and Other Bonds	Stocks		Mortgages	Cash and Deposits	Other	Total
			Preferred	Common				
1950	$ 1,966	$ 2,828	$ 304	$ 802	$ 102	$ 264	$ 186	$ 6,452
1955	2,992	7,856	612	3,354	321	415	591	16,141
1960	2,683	15,699	776	10,734	1,301	546	1,399	33,138
1961	2,715	16,882	762	13,342	1,560	660	1,590	37,511
1962	2,925	18,101	750	15,728	1,876	707	1,805	41,892
1963	3,049	19,560	712	18,118	2,220	773	2,122	46,554
1964	3,193	21,418	650	20,953	2,778	890	2,537	52,419
1965	2,994	23,129	750	25,117	3,385	940	2,870	59,185
1966	2,751	25,231	790	29,067	3,911	300	3,520	66,170
1967	2,324	26,355	980	34,946	4,083	1,320	4,232	74,240
1968	2,756	27,000	1,332	41,740	4,067	1,592	4,585	83,072
1969	2,792	27,613	1,757	47,862	4,216	1,619	4,720	90,579
1970	3,029	29,666	1,736	51,744	4,172	1,804	4,860	97,011
1971	2,732	29,013	1,767	62,780	3,660	1,641	4,826	106,419
1972	3,689	28,207	1,481	74,585	2,728	1,857	4,983	117,530
1973	4,404	30,334	1,258	80,593	2,377	2,336	5,229	126,531
1974	5,533	35,029	1,129	79,319	2,372	4,286	6,063	133,731
1975	10,764	37,809	1,188	83,654	2,383	2,962	6,406	145,166
1976	14,713	39,070	1,250	93,359	2,369	2,199	7,454	160,414
1977	20,138	45,580	1,168	96,984	2,497	3,721	11,421	181,509
1978	19,695	53,824	1,274	100,424	2,789	8,110	16,121	202,237
1979	22,459	59,537	1,350	110,943	3,091	8,609	17,476	223,465
1980	28,312	63,910	1,322	128,473	4,085	9,290	21,506	256,898

SOURCE: U.S. Securities and Exchange Commission.

GOVERNMENT-ADMINISTERED RETIREMENT PLANS

Responsibility for employee retirement income in the United States is divided among employees themselves, private sector funds, state and local government funds, and the Federal government, which operates not only the Social Security system but retirement plans for civilian and military Federal Government employees and railroad employees. ERISA covers only private plans but required a congressional study of government pension plans. Some of the findings of that study, as well as other ongoing studies that affect governmental retirement plans, are discussed in this chapter.

Social Security System

Social Security, the largest social and economic program of the Federal government, is financed through a wage-base system of calculating employer-employee contributed taxes to provide benefit payments to retired and disabled persons, their dependents and survivors. Coverage under the Social Security system includes, with a few exceptions, all those gainfully employed. Taxes are paid into the Old-Age, Survivors and Disability Insurance (OASDI) Trust Funds at equal rates for employers and their employees. The tax rate for self-employed persons is nearly one and one-half times the employee rate. Some 162 million persons had Social Security earnings credits at the end of 1980. Of these, 137 million had been in the program long enough to be fully insured for OASI.

A total of $116.7 billion in Social Security taxes (excluding Medicare) was paid in 1980, including $56.0 billion by employers, $55.7 billion by employees and $5.0 billion by self-employed persons. Combined assets of the Social Security trust funds for cash benefits totaled $26.5 billion at year-end 1980.

For 1980, Social Security payments amounted to $156.2 billion, including Medicare payments. Table 11 refers only to the retirement portion and the disability provisions.

In 1977, the Congress approved legislation known as the Social Security Amendments of 1977. It was designed to bolster the system's trust funds because reports since the early 1970s indicated the program was being underfinanced. Short-term as well as long-term actuarial deficits were forecast.

The system's financing problems have been attributed to the current economic situation, evolving demographic changes and the effect of automatic cost-of-living benefit provisions that existed prior to the 1977 law. The 1977 amendments were designed to correct the system's short-range financing problems and some of the long-range problems by increasing tax revenues through a payroll tax and by more equitably adjusting Social Security benefits for inflation. The 1977 law included some increases in Social Security benefits and also increased the annual amount of earnings a beneficiary aged 65 or older could have without reduction of Social Security benefits. Additionally, the law liberalized the rules regarding widows or widowers age 60 or over so that benefits would not be reduced or stopped because of remarriage. To increase the number of eligible surviving divorced spouses, the required length of the previous marriage was reduced from 20 to 10 years.

The U.S. Social Security system has undergone many functional changes since Congress passed the Social Security Act in 1935. The early program was concerned with building up reserves and was based on the concept of wage-related benefits jointly financed by private sector employers and employees. It was designed to provide a floor of economic protection for elderly persons without making the benefits so high that private employer-employee plans, personal savings, insurance and investments would be discouraged.

Originally, groups including self-employed persons, domestic servants, farm workers, railroad workers, government employees, and employees of nonprofit organizations were excluded. Over the years, coverage has been extended to most of these groups. Nine of 10 employed persons are now covered under Social Security. Not included are railroad workers (who have their own plan that is coordinated with OASDI), Federal employees under any Federal retirement system, certain employees of state and local governments, nonprofit groups (whose coverage is optional), irregularly employed farm and domestic workers and low income, self-employed persons. Retirement benefits under Social Security are payable according to law upon retirement at or after age 62 (benefits are reduced for retirement prior to 65) and after a service requirement is met. When the program was first created, some social-adequacy types of payments were included. Subsequent changes expanded the system so that it provides minimum benefits and dependents' and survivors' benefits with only incidental relation to the earnings on which taxes were paid. The benefit formulas have always been weighted toward lower-paid employees.

The 1977 modification to correct the automatic inflation adjustment in the benefit formula eliminated about half the projected long-term actuarial deficit. Attention is focused on the projected demographic trend of rising numbers of older persons qualifying for Social Security benefits in relation to a relatively smaller work force that will have to bear the cost of financing their benefits. The system's financing and benefit structure affects the private pension system as well as public sector plans.

On June 9, 1980, Public Law 96-265, the Social Security Disability Amendments of 1980, was enacted. These amendments made a number of changes in the way benefits are calculated for disabled workers and their families and in the administration of the DI program. The legislation is designed to strengthen incentives for disabled beneficiaries to return to work and to improve accountability under the DI program.

On October 9, 1980, Public Law 96-403 (the Reallocation Of Social Security Tax Receipts Act) was signed into law. This act reallocates portions of the DI tax rate to the OASI Trust Fund for calendar years 1980 and 1981. (Total OASDI tax rates were not changed.) This adjustment was made to place income to the two trust funds on a relatively more even basis during this period, and to allow additional time to deliberate on resolving the impending OASI financial problems.

On October 19, 1980, Public Law 96-473 (titled an Amendment to the Social Security Act) was signed into law. This amendment makes a number of modifications to the earnings test provisions of the law in order to correct certain inequities caused when the monthly earning test was substantially eliminated by the Social Security Amendments of 1977. In addition, P.L. 96-473 provides for restrictions on Social Security benefits for certain inmates of penal institutions.

On December 5, 1980, Public Law 96-499 (The Omnibus Reconciliation Act of 1980) was signed into law. This Act limits benefit retroactivity, except for disability claims, and (with certain temporary exceptions) includes as "covered wages" any payment of an employee's Social Security taxes by his or her employer.

Federal Civilian Employee Plans

Among the retirement systems established or maintained by the Federal government for its civilian and military employees, only four systems have funding arrangements; benefits under the remaining systems are paid from current-year government appropriations. These four systems are the U.S. Civil Service Retirement System,

the Retirement Plan for Employees of the Federal Reserve Board, the Foreign Service Retirement System and the Tennessee Valley Authority Retirement System.

The largest is the U.S. Civil Service Retirement System which, with 2.7 million active workers on its rolls at year-end 1980, provided benefit payments in 1980 of $14.6 billion to 1.7 million retired workers and their survivors and dependents, and had accumulated assets of $73.7 billion. Employer and employee contributions totaled $19.2 billion in 1980. The share of the employer (the Federal government) is considerably larger than the employee's portion because the Civil Service Retirement Fund income also consists of substantial appropriations from the general Treasury. These appropriations are made to cover interest on the retirement fund's unfunded liability—the present value of current liabilities not covered by present assets. The Congressional Budget Office estimates indicate that the Civil Service Retirement Fund's unfunded liability could reach $160.1 billion by fiscal 1984.

The Federal civilian retirement system operates independently of the Social Security system. As a consequence, the pension benefits for Federal plans, which are financed in part by employee contributions and provide for cost-of-living adjustments, are set higher than if they were integrated with Social Security. However, the Civil Service system's retirement program currently includes provisions that encourage Federal employees to retire at a much earlier age than private sector employees. As a result, many Federal Civil Service retirees are also able to qualify for Social Security benefits. In one recent year, 68% of all civil service annuitants age 65 and over were also receiving Social Security benefits.

However, the majority of these retirees become eligible for OASDI benefits through pre-government employment rather than through employment after government retirement. Social Security Administration statistics also show that by December 31, 1975, 98.5% of Federal government workers in positions covered by the Civil Service Retirement System had had some employment under OASDI. Seventy-six percent had enough OASDI-covered employment to qualify for survivor benefits and 40 percent had enough to guarantee themselves eligibility for retirement benefits after age 62. In a study eight years earlier, the comparable percentages were 95% for some OASDI-covered employment, 68% for survivor benefits and 33% for retirement benefits.

Railroad Retirement System

The Railroad Retirement system is the only retirement system administered by the Federal government that covers a single industry. The system was set up under the Railroad Retirement Act of 1937 to provide financial stability among various railroad plans that were facing bankruptcy after many years of financial difficulties. The Railroad system is now coordinated with the Social Security system to provide adequate levels of retirement benefits.

The Railroad Retirement Act of 1974 restructured the Railroad Retirement system to correct the problem of dual benefit payments under Railroad Retirement and Social Security programs.

Under the new system, employees with 10 years or more of railroad service receive a two-tier benefit. The first tier, computed under the Social Security benefit formula, is based on the employee's combined railroad and nonrailroad service. However, the benefit is reduced by any Social Security benefit paid as a result of nonrailroad work. The second tier, determined on railroad service alone, consists of several components to reflect the different ways of treating railroad service before and after January 1975.

At year-end 1980, the Railroad Retirement system covered 517,000 workers and in 1980 paid retirement benefits of $2.8 billion to 451,000 age, service and disability annuitants. In addition, $2.0 billion was paid to some 564,000 dependents and survivors. The Railroad system is affected by the 1977 Social Security law's provisions regarding adjustments for inflation.

State and Local Government Plans

State and local government retirement systems are designed to provide retirement benefits for teachers, police officers, firefighters and other employees of state, county and city governments. In 1980, such government pension plans paid $12.2 billion in benefits to an estimated 2.4 million retired workers and their survivors and dependents. Assets held by these systems totaled $185.2 billion at year-end 1980. Employers and employees contributed $24.0 billion to the plans, with employers paying 73.1%.

Amendments to the Social Security Act in 1950 and 1954 permitted elective Social Security coverage for state and local employees under certain conditions. About 72% of all state and local employees have Social Security; the majority are also covered by their own pension plans.

One problem with elective Social Security coverage for state and local government employees is that several states have benefits formulas that are not properly coordinated with Social Security.

TABLE 10
THE FEDERAL OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE PROGRAM

(in Millions)

Year	Estimated Number of Persons (End of Year)			Contributions During Year*			
	Persons with Wage Credits**	Persons Insured for Retirement Benefits	Assets† (End of Year) (Trust Funds)	Employer	Employee	Self-Employed	Total
1940	44.8	24.9	$ 2,031	$ 319	$ 319	—	$ 638
1945	72.4	40.3	7,121	643	643	—	1,285
1950	82.7	59.8	13,721	1,334	1,334	—	2,667
1955	98.6	71.4	21,663	2,730	2,664	$ 319	5,713
1960	109.4	85.4	22,613	5,632	5,543	701	11,876
1965	121.3	95.8	19,841	8,183	7,991	1,032	17,205
1970	135.9	109.8	38,068	16,643	16,321	1,774	34,737
1971	138.2	112.3	40,433	18,488	18,052	1,803	38,343
1972	140.6	114.9	42,775	20,694	20,316	1,878	42,888
1973	142.9	118.1	44,414	25,062	24,660	2,185	51,907
1974	145.2	121.6	45,886	28,311	27,896	2,699	58,907
1975	148.3	124.6	44,342	30,746	30,478	3,036	64,259
1976	150.9	127.4	41,133	34,381	34,080	3,133	71,595
1977	154.0	130.2	35,861	37,724	37,439	3,548	78,710
1978	156.8	132.9	31,746	42,745	42,370	3,768	88,883
1979	159.2	135.8	30,291	49,546	49,084	4,404	103,034
1980	161.8	138.6	26,453	56,036	55,692	4,983	116,711

NOTE: Some data are revised. Data may not add to totals due to rounding.

*Figures do not include contributions to the hospital and medical insurance programs.

**Persons who ever had covered earnings and are living at end of year.

†Assets do not reflect solely the contributions paid for Social Security by the private economy, less payments and administration costs. For example, prior to 1940, contributions were paid into the government general funds, and an appropriation was then made to a "reserve account" from the general funds, not necessarily equal to the contributions. The OASI trust fund was established in 1940, and from time to time payments from government general funds have been made to this trust fund to cover special items, such as costs of benefits to survivors of certain World War II servicemen. The DI trust fund was established in 1957, and includes certain payments other than regular contributions, such as reimbursement for non-contributory credit for military service. Other payments from government general funds will be made into these funds in the future to cover costs of such items as the special payments to persons 72 and over provided in the Tax Adjustment Act of 1966. The assets shown above do not include funds in the two newest trust funds—the hospital insurance trust fund, effective January 1, 1966, and the supplementary medical insurance trust fund, effective July, 1966.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

TABLE 11
PERSONS RECEIVING OASDI BENEFITS AT END OF YEAR AND AMOUNT OF OASDI BENEFITS DURING YEAR*

Year	Workers Retired for Age or Disability		Dependents of Retired Workers and Survivors of Deceased Workers		Total	
	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)	Persons (in thousands)	Benefits (in millions)
1940	112	$ 15	100	$ 20	212	$ 35
1945	518	126	770	148	1,288	274
1950	1,771	557	1,706	404	3,477	961
1955	4,474	3,253	3,487	1,715	7,961	4,968
1960	8,517	7,542	6,328	3,703	14,845	11,245
1965	12,089	12,230	8,778	6,081	20,867	18,311
1970	14,845	21,191	11,390	10,672	26,235	31,863
1971	15,575	24,857	11,717	12,313	27,292	37,171
1972	16,388	28,032	12,088	13,563	28,476	41,595
1973	17,739	34,276	12,133	17,183	29,872	51,459
1974	18,474	39,268	12,380	19,253	30,854	58,521
1975	19,301	45,183	12,785	21,740	32,085	66,923
1976	20,024	51,447	13,000	24,218	33,024	75,665
1977	20,826	57,800	13,256	26,776	34,083	84,576
1978	21,372	63,712	13,215	29,154	34,587	92,865
1979	21,953	71,840	13,172	32,423	35,125	104,263
1980	22,537	83,295	13,082	37,217	35,619	120,512

*Benefits include monthly pensions and other payments, and lump sum payments.

SOURCE: Social Security Administration, U.S. Department of Health and Human Services.

TABLE 12
FEDERAL CIVILIAN RETIREMENT SYSTEMS
(Thousands of persons and millions of dollars)

	Number of Persons				Contributions in Year			Benefits Paid in Year			Assets and Reserves
	Not Yet Receiving Benefits	Receiving Benefits: Retired or Disabled	Receiving Benefits: Survivors, Dependents	Total	Employers	Employees	Total	Age, Service, and Disability	Dependents and Survivors	Total	
1950											
Federal Civil Service	1,670	154	18	1,842	$ 307	$ 370	$ 677	$ 176	$ 8	$ 184	$ 4,202
Federal Reserve Board†	19	1	-	20	5	4	9	1	-	1	98
Foreign Service	1	*	-	1	2	1	3	1	-	1	17
Tennessee Valley Authority	9	*	-	9	2	2	4	**	-	*	27
Total	1,699	155	18	1,872	316	377	693	178	8	186	4,344
1960											
Federal Civil Service	2,154	361	150	2,665	823	787	1,610	700	105	805	10,480
Federal Reserve Board†	20	3	*	23	9	3	12	5	**	5	178
Foreign Service	4	*	*	4	2	2	4	3	**	3	29
Tennessee Valley Authority	10	1	*	11	5	3	8	1	**	1	103
Total	2,188	365	150	2,703	839	795	1,634	709	105	814	10,790
1970											
Federal Civil Service	2,612	662	297	3,571	2,001	1,869	3,870	2,368	429	2,797	23,294
Federal Reserve Board	23	5	1	29	18	1	19	14	1	15	348
Foreign Service	6	3	*	9	10	7	17	17	1	18	54
Tennessee Valley Authority	13	2	-	15	12	3	15	7	1	8	226
Total	2,654	672	298	3,624	2,041	1,880	3,921	2,406	432	2,838	23,922
1973											
Federal Civil Service	2,782	844	349	3,975	3,901	2,140	6,041	4,146	642	4,788	31,500
Federal Reserve Board	27	6	1	34	12	1	13	19	2	21	427
Foreign Service	9	3	*	12	20	9	29	31	2	33	68
Tennessee Valley Authority	15	3	1	19	19	4	23	11	**	11	288
Total	2,833	856	351	4,040	3,952	2,154	6,106	4,207	646	4,853	32,283
1974											
Federal Civil Service	2,683	939	368	3,990	4,817	2,332	7,149	5,276	785	6,061	34,600
Federal Reserve Board	28	6	1	35	12	1	13	23	2	25	359
Foreign Service	9	3	1	13	30	11	41	42	2	44	104
Tennessee Valley Authority	15	3	1	19	18	4	22	13	1	14	303
Total	2,735	951	371	4,057	4,877	2,348	7,225	5,354	740	6,144	35,366

1975											
Federal Civil Service	2,730	990	382	4,102	6,707	2,534	9,241	6,052	908	6,960	38,351
Federal Reserve Board	26	6	1	33	18	1	19	25	2	27	425
Foreign Service	10	4	1	15	40	13	53	49	4	53	153
Tennessee Valley Authority	16	4	1	21	21	5	26	15	1	16	319
Total	2,782	1,004	385	4,171	6,786	2,553	9,339	6,141	915	7,056	39,248
1976											
Federal Civil Service	2,707	1,038	394	4,139	7,877	2,780	10,657	7,098	1,077	8,175	43,063
Federal Reserve Board	26	6	1	33	36	2	38	26	3	29	494
Foreign Service	10	4	1	15	17	14	31	77	6	83	184
Tennessee Valley Authority	18	4	1	23	25	7	32	18	2	20	348
Total	2,761	1,052	397	4,210	7,955	2,803	10,758	7,219	1,088	8,307	44,089
1977											
Federal Civil Service	2,716	1,097	406	4,219	9,337	2,931	12,268	8,143	1,238	9,381	49,687
Federal Reserve Board	25	7	1	33	44	2	46	29	3	32	495
Foreign Service	10	4	1	15	31	17	48	76	6	82	268
Tennessee Valley Authority	20	4	1	25	30	9	39	20	2	22	382
Total	2,771	1,112	409	4,292	9,442	2,959	12,401	8,268	1,249	9,517	50,832
1978											
Federal Civil Service	2,737	1,148	416	4,301	11,035	3,194	14,229	9,246	1,423	10,669	56,323
Federal Reserve Board	25	7	1	33	49	2	51	31	3	34	550
Foreign Service	10	6	1	17	27	19	46	87	6	93	374
Tennessee Valley Authority	24	4	1	29	38	12	50	23	2	25	430
Total	2,796	1,165	419	4,380	11,149	3,227	14,376	9,387	1,434	10,821	57,677
1979											
Federal Civil Service	2,700	1,190	427	4,317	12,865	3,447	16,312	10,571	1,618	12,189	64,276
Federal Reserve Board	25	7	1	33	53	2	55	33	3	36	652
Foreign Service	10	6	1	17	25	20	45	120	7	127	493
Tennessee Valley Authority	25	5	1	31	49	15	64	25	3	28	493
Total	2,760	1,208	430	4,398	12,992	3,484	16,476	10,749	1,631	12,380	65,914
1980											
Federal Civil Service	2,700	1,248	427	4,375	15,562	3,686	19,248	12,639	1,912	14,551	73,687
Federal Reserve Board	26	7	1	34	61	2	63	36	4	40	851
Foreign Service	10	6	1	17	27	21	48	141	9	150	660
Tennessee Valley Authority	28	5	1	34	60	19	79	28	3	31	604
Total	2,764	1,266	430	4,460	15,710	3,728	19,438	12,844	1,928	14,772	75,802

NOTE: Details may not add to totals due to rounding. Data for Federal Reserve Board are for calendar years. Data for all other plans are for fiscal years.

*Less than 500.

**Less than $500,000.

†Prior to 1970, data include Federal Reserve Bank Plan, which is now noncontributory.

SOURCES: U.S. Office of Personnel Management (formerly U.S. Civil Service Commission); Retirement System of the Federal Reserve Board; U.S. Department of State; and George B. Buck Consulting Actuaries.

Benefits have increased so much that, combined with other retirement benefits, a retired public employee could receive a retirement income above the salary that he or she was earning prior to retirement.

Many proposals have been made recently to improve Federal, state and local government pension plans, particularly with regard to their reporting, disclosure of operations and funding practices. The Congressional study mandated by ERISA found that funding schedules for these plans were often inadequate. The study recommended Federal regulation of public pension plans in a form similar to that of ERISA. Legislation has been introduced in this area and the relationship among Social Security, public and private pension plans is being studied by such groups as the President's Commission on Pension Policy.

HISTORICAL GROWTH OF PENSION PLANS

Pension plans for workers in the private sector were introduced in the U.S. in the 19th century and were first offered by railroads and express firms. By World War I, more than half of all U.S. railroad employees were covered by such plans; by the late 1920s, the proportion had increased to 80%.

But the expansion of pension plans to other industries was slow. A major innovation in pensions was made in the 1920s—when life insurance companies introduced group annuity contracts.

By the end of the 1920s, workers covered by private pension plans were concentrated in large enterprises—railroads, public utilities, iron, steel and oil companies, and firms that manufactured machinery.

Generally, private pension plans in operation at this time were set up by employers and financed chiefly by employer contributions. Workers had no voice in their retirement plans, and employers retained discretionary control over payment or withholding of benefits.

However, some trade unions maintained their own pension plans financed by the union members, largely in industries with no company plans. By 1930 about 1 in 5 trade union members was covered by a union pension plan in the U.S. or Canada. These pension plans had some 10,000 beneficiaries and pension fund assets were about $10 million.

In 1930, some 2.7 million active workers—15% of all privately-employed nonfarm workers—were covered by private pension plans, and about 100,000 retired workers were receiving pension benefits. Annual benefit payments totaled $90 million, and reserves amounted to $800 million. (These totals exclude railway employees whose pension plans were privately administered until 1935 when the Federally-administered Railroad Retirement System was established.) Contributions to all private pension plans (other than those for railroad workers) were $200 million in 1930, with the employers paying two-thirds of the total.

Depressed economic conditions impeded the growth of private pensions during the first half of the 1930s, but subsequent economic improvement led to increased coverage by 1940. Also, adoption of the Federal Social Security program in 1935 made retirement

planning more widely applicable on a national scale. By 1940, more than 4 million active workers participated in private pension plans, with 160,000 retired workers receiving annual benefit payments of $140 million. Reserves totaled $2.4 billion. Contributions to all private pension plans exceeded $300 million in 1940, with the employers' share declining to less than 60% of the total. One explanation for this is that nearly all newly-formed plans during the 1930s were based on joint contributions by employers and employees, with few noncontributory plans.

Expansion of Private Plans

The exemption of pension contributions from wage control regulations and the deduction of employer pension contributions from the taxable income of employers were significant incentives for the growth of pension plans during World War II. Between 1940 and 1945, more than 2.25 million active workers were added to private retirement plans.

Another significant impetus was the drive by trade unions after the war to add pensions and other supplementary benefits to collective bargaining. Up to this time, pensions were not common in collective bargaining agreements.

The unions were aided in their efforts by the 1949 U.S. Supreme Court ruling requiring employers to bargain on pensions, and by the Steel Industry Fact-Finding Board, which held that industry had an obligation to provide pensions and other welfare benefits. A further spur to union efforts was the inadequacy of Social Security's benefit levels and earnings bases, unchanged from 1937 to 1949.

Between 1945 and 1950, pension coverage was extended to more than 5 million additional workers, more than twice the number of new pension entrants from 1940 to 1945. Some of the plans were not new but were incorporated into collective bargaining agreements, sometimes with more liberal provisions. Three-fourths of workers were covered by noncontributory plans. Private pension plans at the end of 1950 covered 10.3 million persons, including 9.8 million active workers, more than 30% of all persons employed in commerce and industry in the U.S.

In 1950, reserves of private plans reached nearly $12 billion, and benefit payments totaled $370 million. Annual contributions to private plans exceeded $2 billion, with employers paying nearly 85%. The increased proportion of financing borne by employers was largely attributable to the fact that many plans adopted during World War II, and most pension plans agreed to by collective bargaining, were noncontributory.

With the postwar growth of private pension plans, many workers came to view pensions as deferred earnings, and retirement was increasingly regarded as an earned period of leisure and security, rather than as a time of minimal subsistence.

The greatest growth in private pension plans in terms of coverage, contributions, beneficiaries, benefit payments and assets occurred in the 1950s. Private plans covered 20.5 million persons and annual contributions reached $5.5 billion by year-end 1960. Reserves increased to $52 billion, and benefit payments totaled $1.7 billion.

The growth in contributions and benefits under private retirement plans slowed during the 1960s, and much of the growth that occurred was due to inflation. At year-end 1970, 30.8 million persons were covered by private pension plans, and contributions were $14 billion. Benefit payments amounted to $7.4 billion, and reserves reached $137 billion.

Since the early 1960s, the growth in the number of active covered employees in pension plans administered by life insurance companies has been considerably more rapid than in non-insurance company plans. In 1963, 22.6% of active employees in private plans were participating in insurance company pension plans, increasing to 29.8% in 1970. Also, more than 3.9 million additional active workers became covered under insurance company plans from 1963 to 1970, while non-insurance company plans increased their coverage by 6.6 million active workers. While the average number of employees per insurance company pension plan always has been relatively small, this average has become even smaller as the number of plans sponsored by small firms has increased.

By year-end 1975, some 38.5 million active workers were covered by private pension plans, and contributions were about $32.2 billion. From 1970 to 1975, benefit payments more than doubled to $14.9 billion, and reserves increased by 57% to $217.4 billion.

Pension funds have been an important source of capital for the development of the nation's commerce, industry, housing and services, and a major factor in job creation and stability. In addition, these pension assets have more than doubled since 1970, during a period of fluctuating economic conditions and enactment of the Employee Retirement Income Security Act of 1974.

The following chronology outlines significant events in the development of private and public retirement programs in the United States.

1857 New York City established a pension fund for its policemen, the first pension plan covering state or local government employees.

1875 First pension plan established in U.S. industry by the American Express Company. Financed solely by the employer.

1880 First formal plan supported jointly by employer and employee contributions established by Baltimore & Ohio Railroad Company.

1892 Columbia University adopted a pension plan for its professors, at age 65 with a minimum of 15 years service. This was the first private college retirement plan.

1893 First pension plan for public school teachers was established in Chicago.

1901 Carnegie Steel Company established first enduring plan in a manufacturing company. This plan, with some modifications, was taken over by the United States Steel Company in 1911.

1903 Standard Oil Company of New Jersey plan for pensions went into effect. Its terms were informal but were the bases of 26 later plans.

1905 First trade union plan which actually functioned was established by the Granite Cutters. Earlier trade union plans, Pattern Makers (1900) and National Association of Letter Carriers (1902), never paid benefits before dissolution.

1905 Carnegie Foundation for the Advancement of Teaching was founded, one of its primary purposes being to help provide retirement income for teachers in institutions of higher learning.

1907 The first of the large international unions, the International Typographical Union, adopted a formal pension plan for its members.

1920 The Federal Civil Service Retirement and Disability Fund was created by Congress.

1921 First group annuity contract in the U.S. was issued by Metropolitan Life Insurance Company.

1921 Revenue Act of 1921 made employer contributions to profit-sharing trusts tax-exempt. Provisions were extended to pension trusts in 1926.

1935 Railroad Retirement System was established and amended in 1937 to create a unified system for the industry.

1935 Social Security Act was adopted. Subsequently amended to include survivors and dependents, disabled workers and their dependents, coverage for additional fields of employment; to lower minimum retirement age; to raise benefit levels; to revise contribution schedules; to increase earnings base; in 1965, to establish "Medicare," a broad program of health insurance for people 65 or older; in 1974, to provide supplemental security income benefits to persons 65 or older, blind, disabled, with little or no income; in 1977 to increase wage base and tax rates in steps beginning in 1978 and to revise the benefit structure.

1949 The U.S. Supreme Court ruled that employers are required to bargain on pensions, giving impetus to the drive by trade unions for negotiated pension plans.

1949 The Steel Industry Fact-Finding Board held that employers were obliged to provide workers with pensions and other welfare benefits.

1952 College Retirement Equities Fund (CREF) was established as the first variable annuity fund.

1958 Federal Welfare and Pension Plans Disclosure Act became effective, providing for detailed reporting to the Federal government regarding the operation and administration of welfare and pension plans. This law was repealed under ERISA (see 1974), except that it still applies to pre-ERISA plan administration.

1958 A provision for U.S. Presidents' retirement benefits and widows of U.S. Presidents' benefits was established as part of the U.S. Code.

1959 Life Insurance Company Income Tax Act approved by Congress excluding from taxation investment income attributable to insured pension reserves.

1962 H.R. 10 (Keogh Act) adopted (officially the Self-Employed Individual Retirement Act) and was subsequently liberalized by amendment; this made available qualified pension planning for self-employed persons, unincorporated small businesses, farmers, professional people and their employees.

Early 1960s Most states which did not already permit life insurance companies to maintain separate accounts passed laws specifically allowing them, thus freeing such pension fund investments from some limitations applicable to the companies' general accounts.

1963-1964 The Securities and Exchange Commission ruled that separate account acquisitions are an issuance of securities subject to regulation under the Securities Act, but tax-qualified group pension plans (including variable annuities) were exempted from registration and prospectus requirements of the Securities Act.

1965 The President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs issued its report, "Public Policy and Private Pension Programs." This was the forerunner of ERISA.

1974 The Employee Retirement Income Security Act of 1974 (ERISA) was signed into law on September 2, 1974. ERISA is designed to protect participants in private pension plans on plan terminations, and to give individual pension incentives to self-employed persons and those whose employers have no pension plans.

1978 The Age Discrimination in Employment Act (ADEA) Amendments of 1978 raised the mandatory retirement age from 65 to 70 for most private sector and state and local government employees and eliminated it for Federal employees.

1981 The Economic Recovery Tax Act of 1981 raised contribution limits on Individual Retirement Accounts and H.R. 10 plans and extended IRA eligibility to persons covered by employer pension plans.

PENSION TOPICS OF CURRENT INTEREST

Two significant events in the pension world occurred in 1981: the release of the President's Commission on Pension Policy's final recommendations, and the passage of the Economic Recovery Tax Act of 1981. Each of these is summarized in the remainder of this chapter.

Recommendations of the President's Commission On Pension Policy

In 1978, the Congress authorized the President's Commission on Pension Policy to undertake a two-year study of the nation's retirement income system and policies. The Commission's recommendations were issued in January 1981.

In its recommendations, the Commission stated its belief that individuals should be able to maintain their pre-retirement standard of living during retirement years. It cited the replacement of pre-retirement disposable income from all sources as a desirable retirement income goal. Income from Social Security should be available to all retired workers and their families. This should be supplemented by income from employee pensions. Individuals should also be encouraged to supplement their retirement income through individual effort from savings and employment.

The Commission made recommendations in the following specific areas:

Minimum Universal Pension System (MUPS). A Minimum Universal Pension System should be established for all workers. The system should be funded by employer contributions. The Commission further recommended that a 3% payroll contribution be established as a minimum benefit standard. All employees over the age of 25 with one year of service and 1,000 hours of employment with their employer would be participants in the system. Vesting of benefits would be immediate. The MUPS benefit would be a supplement to Social Security benefits and could not be integrated with Social Security.

To help mitigate the costs of a MUPS for employers and employees, the program should be phased in over three years. In addition, employers should be able to take a special MUPS tax credit of 46% of their contribution, to a qualified plan, up to a limit of 3% of payroll.

Vesting and Portability. ERISA's vesting standards should not be changed but private plans should be encouraged, but not required, to provide shorter vesting schedules.

Individual Contributions To Retirement. The Commission also made recommendations in regard to strengthening individuals' contributions to retirement income, as follows: The tax treatment of savings specifically for retirement should be the same as the tax treatment of pension plans and favorable tax treatment should be extended to employee contributions to pension plans. A refundable tax credit for low- and moderate-income people to encourage voluntary individual retirement savings and employee contributions to plans is recommended.

Treatment of Spouses. The Commission recommended the following with respect to spouse benefits in retirement programs:

1. At retirement, 50% survivor annuity protection would be automatic unless both parties waive (freely and knowledgeably) such protection in favor of another benefit form.

2. During the 10-year period preceding normal retirement, survivor protection must be automatic unless such protection is waived by both parties.

3. Where benefits are vested prior to this 10-year period, some form of survivor protection should be provided for the vested accrued benefit, regardless of the participant's age.

4. In the event of divorce, pension entitlements earned during the period of marriage should be divided between the parties.

Retirement Ages. ERISA should be amended to permit private pension plans, on a voluntary basis, to increase their normal retirement age in tandem with the increase in the Social Security normal retirement age (see page 41). Also, public employee pension plans should increase their normal retirement age in tandem with Social Security.

Adjustment for Inflation. The greatest emphasis should be placed on expanding pension coverage rather than providing full inflation protection. Retirement benefits from Federal pension plans should be adjusted for inflation once, rather than twice, a year. Until a new index is developed for the retired, Federal pensions should be adjusted on the basis of average Federal wage increases or increases in the Consumer Price Index whichever is lower.

State and Local Government Plans. The Commission recommended that a Public Employee Retirement Income Security Act (PERISA) be enacted covering the same areas as ERISA.

Ownership and Control of Pension Fund Assets. The Commission recommended that a Presidential Commission be established to study issues relating to the ownership and control of pension

fund assets. In the interim, ERISA's prudence standards should not be construed to prevent pension funds from making "social investments."

The Commission recommended the following actions to strengthen Social Security:

Financing. To solve the short-run financing problems, there should be interfund borrowing and an acceleration of the scheduled payroll tax rate increases. The normal retirement age of 65 for Social Security should not be raised for working people who are approaching retirement age; however, an increase in the normal retirement age to 68 should be phased in over a 12-year period beginning in 1990.

Universal Social Security Coverage. Social Security should not replace an existing pension system for noncovered workers, but existing systems should be modified to take into account benefits available under Social Security. Individuals already retired and workers eligible for immediate retirement should not be affected. The Commission recommended Universal Social Security coverage. Further, the current option allowing covered government and nonprofit groups to withdraw from the Social Security program should be terminated immediately.

Tax Treatment and Earnings Test. Contributions to and benefits from Social Security should receive the same tax treatment as do those of other retirement programs. To encourage employment of older workers, the earnings test should be eliminated.

Spouse Benefits. Earnings sharing should be used upon divorce and inheritance of earnings credits should be provided to surviving spouses of two-earner couples.

Special Minimum Benefit Under Social Security. The Social Security special minimum benefit should continue to be available to long-service workers to enable them to meet the Commission's retirement income goals but should be calculated to take into account employee pensions. Further, the special minimum benefit should be provided for full-career, low-income workers.

Financing and Phasing in the Retirement Income Programs. U.S. retirement income programs are dangerously dependent on pay-as-you-go systems, such as Social Security, supplemental security income, and in-kind benefit programs, according to the Commission. It recommended increased private sector expenditures by employers for retirement programs and proposed tax cuts for business and individuals to ease the transition to increased fund accumulation in employee pension programs and individual retirement savings programs.

TABLE 13
RAILROAD RETIREMENT SYSTEM
(Thousands of persons and millions of dollars)

Year	Number of Persons				Contributions in Year			Benefits Paid in Year			Assets
	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	
1930	*	*	-	1,400	$ 30	-	$ 30	NA	-	NA	-
1940	1,205	141	3	1,349	65	$ 65	130	$ 114	-	$ 114	$ 136
1950	1,494	251	136	1,881	273	273	546	254	NA	NA	2,553
1960	862	384	408	1,654	298	298	596	626	$ 336	962	3,740
1970	650	444	539	1,633	493	467	960	1,108	663	1,771	4,398
1971	595	440	543	1,578	475	450	925	1,200	802	2,002	4,300
1972	586	447	542	1,575	525	475	1,000	1,350	825	2,175	4,100
1973	589	443	550	1,582	540	500	1,040	1,550	1,015	2,565	3,800
1974	585	457	546**	1,588	1,201	421	1,622	1,710	1,098	2,808	3,600
1975	532	469	563**	1,564	1,209	423	1,632	1,970	1,313	3,283	3,100
1976	541	466	565**	1,572	1,325	465	1,790	2,102	1,469	3,571	3,065
1977	534	464	569**	1,567	1,457	507	1,964	2,245	1,579	3,824	2,584
1978	553	459	568**	1,580	1,520	546	2,066	2,353	1,668	4,021	2,787
1979	545	455	567**	1,568	1,732	682	2,414	2,552	1,810	4,362	2,611
1980	517	451	564**	1,532	1,845	717	2,562	2,839	2,027	4,866	2,086

NA = Not Available.

*Not available separately.

**Figure includes employee annuitants also receiving benefits as dependents of survivors.

SOURCE: U.S. Railroad Retirement Board.

TABLE 14
STATE AND LOCAL GOVERNMENT RETIREMENT PLANS

(Thousands of persons and millions of dollars)

	Number of Persons				Contributions in Year			Benefits Paid in Year			
Year	Not Yet Receiving Benefits	Retired or Disabled	Survivors and Dependents	Total	Employers	Employees	Total	Retired or Disabled	Survivors and Dependents	Total	Assets
1950	2,600	254	40	2,894	$ 510	$ 395	$ 905	$ 274	$ 26	$ 300	$ 5,154
1960	4,500	590	70	5,160	1,725	1,170	2,895	940	75	1,015	19,600
1970	7,300	1,171	120	8,591	4,920	2,975	7,895	2,905	215	3,120	50,200
1971	7,700	1,254	125	9,079	5,495	3,280	8,775	3,372	248	3,620	64,800
1972	8,100	1,333	130	9,563	6,050	3,570	9,620	4,085	250	4,335	73,400
1973	8,300	1,415	135	9,850	6,649	4,166	10,815	4,785	290	5,075	82,700
1974	9,000	1,495	140	10,635	7,821	4,207	12,028	5,495	340	5,835	92,400
1975	9,500	1,585	145	11,230	9,116	4,488	13,604	6,335	390	6,725	103,700
1976	10,450	1,690	150	12,290	10,502	4,808	15,310	7,250	450	7,700	117,300
1977	10,951	1,989	184	13,124	12,369	5,233	17,602	7,965	490	8,455	130,800
1978	11,300*	2,050*	190*	13,540*	13,621	5,688	19,309	9,000*	550*	9,550	142,600
1979	11,400*	2,100*	200*	13,700*	15,336	6,069	21,405	10,150*	620*	10,770	161,650
1980	11,550*	2,150*	200*	13,900*	17,532	6,466	23,998	11,500*	710*	12,210	185,226

NOTE: Some data are revised. Beneficiaries are as of June 30. Financial data is on a calendar year basis prior to 1977, and on a June 30 fiscal year basis thereafter.

*Estimated.

SOURCES: U.S. Bureau of the Census, U.S. Department of Commerce; and U.S. Securities and Exchange Commission.

Supplemental Security Income Program. The transition to greater reliance on funded retirement income programs will take many years. In the interim, the nation's retired population will continue to depend heavily on Social Security and other Federal programs. Many in this group are elderly women who do not have their own employee pensions or survivor benefits from their husbands' pensions. The Commission therefore recommended that expenditures for the Supplemental Security Income program be increased for those without significant work histories and that expenditures for the Social Security special minimum benefit be increased for long-service, low-wage workers, but if a minimum universal pension system took effect, Federal expenditures for these programs would decline.

Economic Recovery Tax Act of 1981

On August 13, 1981, President Reagan signed into law the most sweeping tax reduction measure in the nation's history. This new law, which is entitled the "Economic Recovery Tax Act of 1981," provides significant tax reductions for individuals and businesses, amounting to almost $750 billion. It includes a three-year, 25% cut in individual tax rates, indexing of those rates for inflation beginning in 1985 and quicker depreciation writeoffs for business. The new law contains the following provisions relating to retirement income issues:

Savings Provisions:

Individual Retirement Accounts. For individuals who are not active participants in an employer-sponsored plan, the annual contribution limit is raised from the lesser of $1,500 or 15% of compensation to the lesser of $2,000 or 100% of compensation.

Spousal IRAs. The limit for a spousal IRA is increased from $1,750 to $2,250 and the present-law requirement that contributions under a spousal IRA be equally divided between the spouses is deleted.

Employee Retirement Savings Deduction. For employees who are active participants in an employer-sponsored plan, a deduction up to $2,000 is allowed for annual contributions to an IRA or for voluntary contributions to the plan. Withdrawals of the voluntary contributions to the plan and earnings thereon are subject to IRA-type rules except that distributions starting at age 70½ are not mandated and withdrawals may be rolled over into an IRA to avoid the withdrawal penalties.

Increase in H.R. 10 Limits. The new law increases the maximum annual deduction for contributions to a defined contribution Keogh plan (self-employed), a plan maintained by a Subchapter S corporation (shareholder-employee), or a simplified employee pension

(SEP) from $7,500 to $15,000. The 15% net earnings limitation on contributions is not changed. The compensation taken into account in determining permitted annual benefit accruals under a defined benefit H.R. 10 or Subchapter S plan is increased from $50,000 to $100,000.

(The above provisions relating to retirement income programs are effective January 1, 1982.)

Exclusion of Interest on Qualified Savings Certificates. In an attempt to aid the financially troubled savings and loans industry, the new law provides a lifetime exclusion from gross income of $1,000 ($2,000 in the case of a joint return) of interest earned on qualified tax-exempt savings certificates. Qualified tax-exempt savings certificates ("All Savers") are one-year certificates issued after September 30, 1981, and before January 1, 1983, by a qualified depository institution with a yield equal to 70% of the yield on 52-week Treasury bills.

Partial Interest and Dividend Exclusion. The current $200 exclusion ($400 in the case of a joint return) for interest and dividend income is repealed after 1981. For 1982 and subsequent years, taxpayers will be allowed to exclude $100 of dividend income on a single return and $200 on a joint return. In addition, effective for 1985, the new law also provides for a 15% interest exclusion on a maximum $3,000 ($6,000 on a joint return) of net interest (i.e., interest income after reduction for interest deductions other than home mortgage and business interest). Interest paid by an insurance company is eligible for the exclusion.

Estate and Gift Tax Provisions

Increase in Unified Credit and Reduction of Rates. The maximum estate and gift tax rates are reduced over a four-year period in 5% increments from 70% to 50% beginning in 1982.

The unified estate and gift tax credit is also increased gradually from the present $47,000 to $192,800 over six years beginning in 1982. Thus, cumulative transfers exempt from estate and gift taxes increase from $175,625 under present law to $600,000 in 1987 and subsequent years.

Marital Deduction. The new law provides an unlimited marital deduction for both estate and gift taxes.

Annual Gift Tax Exclusion. The new law increases the amount of the annual gift tax exclusion from $3,000 to $10,000 per year.

THE LANGUAGE OF PENSIONS

The definitions in this chapter are not meant to be comprehensive and may not always be technically complete; they are intended to help the average reader understand the terminology of a complex subject. The *Bibliography* includes numerous sources of technical explanations for those who require precise definitions.

Actuarial Cost Methods—Systems for determining either the contributions to be made under a retirement plan, or level of benefits when the contributions are fixed. In addition to forecasts of mortality, interest and expenses, some of the methods involve estimates of future labor turnover, salary scales and retirement rates.

Actuarial Equivalent—If the present values of two series of payments are equal, taking into account a given interest rate and mortality according to a given table, the two series are said to be actuarially equivalent on this basis. For example, a lifetime monthly benefit of $67.60 beginning at age 60 (on a given set of actuarial assumptions) can be said to be the actuarial equivalent of $100 a month beginning at age 65. The actual benefit amounts are different but the present value of the two benefits, considering mortality and interest, is the same.

Actuary—A person professionally trained in the technical aspects of pensions, insurance and related fields. The actuary estimates how much money must be contributed to a pension fund in order to provide future benefits.

Amortization—Paying an interest-bearing liability by gradual reduction through a series of installments, as opposed to one lump-sum payment.

Annuitant—A person entitled to receive payments under an annuity or now receiving such payments.

Annuity—A contract that provides an income for a specified period of time, such as a number of years or for life. Annuity payments are usually made monthly but can be made quarterly, semi-annually or annually. Often used synonymously with "pension."

Assumptions—Conditions and rules underlying the calculation of a pension benefit, including expected interest, mortality and turnover.

Beneficiary—Person named by the participant in a pension or welfare plan to receive any benefits provided by the plan if the participant dies.

Break In Service—A calendar year, plan year or other consecutive 12-month period designated by the plan during which a plan participant does not complete more than 500 hours of service.

Contingent Annuity Option—An option under which an employee may elect to receive, under certain conditions, a reduced amount of annuity with the same income, or a specified fraction, to be paid after his death to another person designated as his contingent annuitant, for that person's lifetime. The contingent annuitant is usually the husband or the wife. (See *Joint and Survivor Annuity*).

Contract Holder—The group, entity or person to whom a group annuity contract is issued.

Covered—A person covered by a pension plan is one who has fulfilled the eligibility requirements in the plan, for whom benefits have accrued, or are accruing, or who is receiving benefits under the plan.

Death Benefit—A payment made to a designated beneficiary upon the death of the employee annuitant.

Deferred Annuity—An annuity under which payment will begin at some definite future date, such as in a specified number of years or at a specified age.

Deferred Compensation—Arrangements by which compensation to employees for past or current services is postponed until some future date.

Defined Benefit Plan—A pension plan stating either (1) the benefits to be received by employees after retirement or (2) the method of determining such benefits. The employer's contributions under such a plan are actuarially determined.

Defined Contribution Plan—A plan under which the contribution rate is fixed and benefits to be received by employees after retirement depend to some extent upon the contributions and their earnings.

Disability Benefit—Periodic payments, usually monthly, payable to participants under some retirement plans, if such participants are eligible for the benefits and become totally and permanently disabled prior to the normal retirement date.

Early Retirement—Retirement of a participant prior to the normal retirement date, usually with a reduced amount of annuity. Early

retirement is generally allowed at any time during a period of 5 to 10 years preceding the normal retirement date.

Eligibility Requirements—This term refers to (1) the conditions which an employee must satisfy to participate in a retirement plan, one such condition being the completion of from 1 to 3 years of service with the employer, another the attainment of a specified age, such as 25, or (2) conditions which an employee must satisfy to obtain a retirement benefit, such as the completion of 15 years of service and the attainment of age 65.

Enrolled Actuary—A person who performs actuarial service for a plan and who is enrolled with the Federal Joint Board for the Enrollment of Actuaries.

Equities—Investments in the form of ownership of property, usually common stocks, as distinguished from fixed income bearing securities, such as bonds or mortgages.

Employee Stock Ownership Plan (ESOP)—A defined contribution pension plan which is designed to invest primarily in employer securities.

Fiduciary—One who exercises discretionary authority or control over management of a plan or disposition of its assets, renders investment advice for a fee, or has authority or responsibility to do so, or has discretionary authority or responsibility in administering a plan.

Forfeitures—Amounts contributed on behalf of terminated, nonvested participants. In a pension plan, such amounts must be applied to reducing future employer contributions. In a profit-sharing plan, such amounts may be allocated to the accounts of remaining participants.

Funded Retirement Plan—A plan under which funds are set aside in advance to provide expected benefits.

Future Service Benefits—Benefits accruing for service after the effective date of coverage under the plan.

Group Annuity Contract—A contract issued by a life insurance company that may be used as the funding instrument for benefits to be made in accordance with a pension plan. A single master contract provides that the group of persons participating in the plan will receive annuities during retirement. Individual certificates stating coverage may be issued to members of the group.

Immediate Annuity—An annuity providing for payment to begin immediately.

Initial Past Service Liability—The actuarial value (single sum) of the past service benefits as of the effective date of the establishment of the plan, or at the date of the latest liberalization. The maximum annual past service contribution allowable for tax deduction is the amount necessary to amortize past service liabilities and other supplementary pension or annuity credits over 10 years. Funding of the past service liability over a period of 30 years (40 in some cases) is required by the Internal Revenue Service under ERISA.

Integration—A coordination of the pension benefit with the Social Security benefit through a specific formula. Qualified plans must integrate so that total benefits are non-discriminatory between rank and file employees and owners, officers or highly compensated employees.

Joint and Survivor Annuity—A contract that provides income periodically, payable during the longer lifetime of two persons. The amount payable may decrease at the death of one or the other. (See *Contingent Annuity Option.*)

Labor-Management Relations Act of 1947 (Taft-Hartley Act)—This law controls conditions under which an employer may pay any money to a representative of employees.

Life Annuity—A series of payments under which payments, once begun, continue throughout the remaining lifetime of the annuitant but not beyond.

Life Annuity With 10 Years Certain—An annuity which pays an income to the annuitant for as long as he or she lives, but if death occurs within 10 years after the annuity payments begin, payments are continued to a named beneficiary for the remainder of the 10 years.

Life Expectancy—The average number of years of life remaining for a group of persons of a given age according to a particular mortality table.

Lump-Sum Distribution—Payment within one taxable year of the entire balance payable to an employee from a trust which forms part of a qualified pension or employee annuity plan on account of that person's death, separation from service or attainment of age 59½.

Minimum Benefits—A provision that a minimum amount of annuity will be paid if the regular benefit formula produces less. This minimum is usually payable only if certain service requirements are met at retirement.

Mortality Table—A table showing how many members of a group, starting at a certain age, will be alive at each succeeding age. It is

used to calculate the probability of dying in, or surviving through, any period, and for the valuation of an annuity. To be appropriate for a specific group, it should be based on the experience of individuals having common characteristics, such as sex or occupation.

Multi-Employer Plan—A plan maintained according to a collective bargaining agreement, to which more than one employer contributes. Under ERISA, at the beginning of the plan, no single employer may contribute as much as 50% of the total, and thereafter as much as 75%. An employee may change employers within the group without losing retirement benefits unless a break in service (under the plan) cancels credits earned before the break.

Pension Benefit Guaranty Corporation (PBGC)—The Federal body responsible for administering the plan termination insurance program under ERISA.

Pension Benefits—A series of payments to be provided in accordance with the plan of benefits.

Pension Plan—A plan established and maintained by an employer, group of employers, union or any combination, primarily to provide for the payment of definitely determinable benefits to participants after retirement.

Plan Administrator—The person or persons controlling the money or property contributed to the plan, usually designated in the plan agreement.

Portability—The transfer of pension rights and credits when a worker changes jobs.

Prototype Plan—A standardized plan, approved and qualified as to its concept by the Internal Revenue Service, which is made available by life insurance companies, banks and mutual funds for employers' use.

Qualified Plan—A plan which the Internal Revenue Service approves as meeting the requirements of Section 401(a) of the 1954 Internal Revenue Code. Such plans receive tax advantages.

Reserve—The reserve, for an annuity, is the amount of money required to guarantee the payment of annuity benefits at future dates.

Self-Administered (Trusteed or Directly Invested) Plan—A plan funded through a fiduciary, generally a bank, but sometimes a group of individuals, which directly invests the accumulated funds. Retirement payments are made from the fund as they fall due.

Separate Account—A fund held by a life insurance company

which is separate and apart from its general assets and is generally used for investment of pension assets in common stocks.

Social Security Option—An option under which the employee may elect that monthly payments of an annuity before a specified age (62 or 65) be increased, and that payments thereafter be decreased to produce, as nearly as practical, a level total annual annuity to the employee, including Social Security benefits when they become due.

Split Funding—The use of two or more funding agencies for the same pension plan. An arrangement whereby a portion of the contributions to the pension plan are paid to a life insurance company and the remainder of the contributions invested through a corporate trustee, primarily in equities.

Spouse's Benefit—Payments to the surviving spouse of a deceased employee, usually in the form of a series of payments upon meeting certain requirements and usually terminating with the survivor's remarriage or death.

Temporary Life Annuity—An annuity payable while the annuitant lives but not beyond a specified period, such as five years. No payments are to be made after the end of the stipulated temporary period or the death of the annuitant.

Transferability—Any arrangement under which the accumulated benefit credits of a terminating participant, or their actuarial value, are transmitted from one plan to another, or to a central agency.

Turnover Rate—The rate at which employees terminate covered service other than by death or retirement. Expected future turnover can be taken into account in translating contributions into benefits.

Variable Annuity—An annuity under which the benefit varies according to the investment results of a life insurance company's separate account (usually invested primarily in common stocks).

Vesting—A provision that a pension participant will, after meeting certain requirements, retain a right to all or part of the accrued benefits, even though the employee may leave the job before retirement.

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Financial Analysts Journal
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Monthly Labor Review
Pension World
Pensions and Investments
Social Security Bulletin
SEC Monthly
Statistical Review

APPENDIX
THE 1974 PENSION REFORM LAW

The Employee Retirement Income Security Act of 1974 ("ERISA") was signed into law on Labor Day, 1974. Under ERISA, an employer is not required to set up an employee pension benefit plan ("pension plan"), but when an employer establishes or maintains a pension plan, ERISA has standards with which the employer must comply. ERISA provides tax incentives to encourage pension savings by self-employed individuals and their employees, and by individual workers whose employers do not have retirement plans.

The Major Provisions

ERISA's major provisions include:

Participation: Employees who reach age 25, or who have one year's employment, whichever is later, must be eligible to participate in any pension plan. Pension plans with full and immediate vesting may require three years of employment as a prerequisite to participation.

Employees with less than 1,000 hours of employment service during the requisite twelve-month period need not be credited with a year of service for purposes of the eligibility rules.

Vesting: A plan must generally meet one of three alternative minimum vesting formulas with respect to allowed benefits derived from employer contributions.

1. Ten-Year Service Rule—Total vesting after 10 years of service.

2. Graded 15-Year Service Rule—Vesting of 25% after five years of service, increasing 5% each year for the next five years and by 10% for the following five years, resulting in fully vested rights after 15 years.

3. Rule of 45-50% vesting when age and length of service totals 45 years with a minimum of five years of service, or, if earlier, after 10 years of service, regardless of age. Vesting is then increased 10% a year in each of the next five years so that full vesting is attained at the end of that five-year period.

Because these are minimum standards, a plan may provide vesting at a faster rate. In addition, an employee's right to accrued benefits derived from his own contributions must always be nonforfeitable. Finally, a "year of service" for purposes of vesting is when an employee works 1,000 hours or more during a requisite twelve-month period.

Joint and Survivors Annuity Requirement: All participants must have the option of a continuing pension benefit to a spouse if the retired employee dies before his or her spouse. Employees who have retired or who have reached normal retirement age are assumed to have chosen the joint and survivor annuity option unless they have specifically rejected it in writing within a reasonable period of time prior to retirement. The benefit provided the surviving spouse—married to the employee throughout the one-year period immediately preceding the employee's death—must be at least 50% of the employee's pension. The employee's pension may be reduced to meet the cost of the option. If a plan provides for early retirement, the employee who continues to work after becoming eligible therefor must have the option to provide for a survivor benefit in the case of death before retirement.

Funding Standards: Minimum guidelines are established for funding of pension benefits. Annual minimum contributions to pension plans must be sufficient to meet both the normal costs of the plans and to amortize past service liabilities over no more than 30 years (40 years for multi-employer plans). Experience gains and losses are to be amortized over no more than 15 years for single-employer plans (20 years for multi-employer plans.)

Portability Provisions: An employee changing jobs may defer tax payment on a lump sum distribution of vested pension benefits, if within 60 days of receipt, he or she transfers and invests the distribution in a tax-qualified individual retirement annuity or account, or deposits it in a new employer's qualified retirement plan. ERISA does not require any specific portability provisions from plan to plan.

Plan Termination Insurance: A Federal insurance facility, the Pension Benefit Guaranty Corporation (PBGC) guarantees that participants in covered defined benefit pension plans will receive their vested benefits subject to certain limitations. However, PBGC does not cover profit-sharing, stock bonus, money-purchase and other types of defined contribution plans. Premium payments for the insurance are assessed on covered plans per participant (currently $2.60 per participant in single-employer plans and $1.40 per participant in multi-employer plans).

Fiduciary Standards: ERISA establishes Federal fiduciary standards, imposing strict responsibilities on plan fiduciaries. A plan fiduciary as defined in the law includes any trustee, plan administrator, investment advisor or any other person who has discretionary control, authority or responsibility in the management of the plan or its assets. Fiduciaries are required to perform their duties solely in the interest of the plan participants and their beneficiaries

according to a "prudent man" rule as defined in the pension law. The rule provides that a fiduciary, in part, must discharge his duties ". . . with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use . . . ." Certain types of conduct and transactions are expressly prohibited, unless specific exemptions are granted by the U.S. Labor and Treasury Departments. Unless a plan is fully insured, funds set aside to provide benefits must be held in trust and used only to provide benefits and pay the necessary costs of running the plan.

Jurisdiction: The Labor and Treasury Departments share jurisdiction under ERISA. The Treasury Department has primary jurisdiction over minimum participation, vesting and funding standards, and the Labor Department has primary jurisdiction over fiduciary responsibility and prohibited transaction provisions.

Reporting and Disclosure Requirements: Pension and welfare benefit programs are required to disclose to plan participants and their beneficiaries and report to the Federal government information on their plan operations and financial condition. A plan booklet providing a reasonably comprehensive summary of important plan provisions, written so it is understandable by the average plan participant, must be provided to each participant and beneficiary. An updated booklet must be provided to each plan participant every five years if there have been amendments to the plan; otherwise a new booklet must be provided every 10 years. The plan administrator must make an annual report on the plan's financial condition to the Federal government. This report, which is filed with the Internal Revenue Service (IRS), serves as a combined report to the IRS, the Labor Department and the PBGC. At employment termination, pension plan participants must receive a statement showing their vested benefits, and how and where they can be claimed. Also a report on vested terminated employees must be filed with the IRS. Steps have been taken to reduce ERISA paperwork, particularly for small businesses sponsoring employee benefit plans. For example, insured welfare plans with fewer than 100 participants are relieved of many of the reporting requirements.

Pension Limitations: Limitations are imposed on the benefits and contributions which may be provided to participants under tax-qualified corporate pension and profit-sharing plans. Under a qualified defined benefit pension plan, the maximum annual pension is 100% of final average compensation or, if less, $75,000 (indexed to the cost of living). The maximum may be payable as early as age 55. Under a defined contribution plan, limitations on contributions are generally expressed as an amount equal to 25% of compensation or,

if less, $25,000 (indexed to the cost of living). The maximum benefit or contribution is subject to annual adjustment for cost of living increments under Treasury regulations. (For calendar year 1981, the ERISA maximum was $124,500 for defined benefit plans and $41,500 for defined contribution plans.)

Individual Incentives: Self-employed persons could deduct up to $7,500 a year (formerly $2,500) on the tax returns or, if less, 15% of earned income for amounts placed in qualified retirement plans (H.R. 10 plans) on their own behalf.

Workers not covered by a retirement plan where they are employed could make tax-deferred contributions of 15% of earned income up to $1,500 per year to an individual retirement account or annuity (IRA). Beginning in 1977, if a nonemployed spouse was covered, the maximum IRA contribution limit increased to $1,750.

Under the Revenue Act of 1978, regardless of whether an employee participated in a retirement plan, employers are allowed to contribute the lesser of $7,500 or 15% of compensation to an employee IRA if the contributions are made under a definite, written allocation formula which is nondiscriminatory and if the employee's right to the contributions is 100% vested. Additionally, if the employer contributed less than $1,500—the maximum amount an employee could contribute to his own IRA—the employee (to the extent he or she is eligible to participate in an IRA if not participating under the simplified pension plan program) could make up the difference between the employer's contribution and the maximum allowable employee contribution with his or her own deductible contribution.

Funds under H.R. 10 plans or individual retirement account plans may be placed with a life insurance company, a bank, a mutual fund or in certain special government bonds. There are penalties and an immediate tax liability if funds are withdrawn prematurely under these individual incentive programs.

Under the Economic Recovery Tax Act of 1981, effective for tax years beginning with 1982, employees who are active participants in an employer-sponsored or government plan can obtain a tax deduction each year for up to $2,000 contributed to an IRA ($2,250 for a spousal IRA) or for voluntary contributions to the employer-sponsored plan. Premature withdrawals of the voluntary contributions and any earnings thereon are subject to IRA-type penalties. The Act also raised the maximum contributions to Keogh plans to the lesser of $15,000 or 15% of earned income.